

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

3 IN THE MATTER OF DETERMINING) S-06-121-06-TO02
Whether there has been a violation of the)
4 Securities Act of Washington by:) **AMENDED STOP ORDER SUSPENDING**
) **SECURITIES REGISTRATION AND**
5) **DENYING RE-REGISTRATION,**
Pacific Coast Investment Co. and) **SUMMARY ORDER SUSPENDING AND**
6 Raymundo Salgado,) **DENYING OR REVOKING BROKER-**
) **DEALER AND SALESPERSON**
7) **REGISTRATION, SUMMARY ORDER**
Respondents.) **REVOKING EXEMPTIONS AND NOTICE**
8) **OF INTENT TO IMPOSE A FINE**
)

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10 THE STATE OF WASHINGTON TO: Raymundo Salgado and
11 Pacific Coast Investment Co.
403 Columbia Ave., Suite 410
12 Seattle, WA 98104

13 **STATEMENT OF CHARGES**

14 Please take notice that the Securities Administrator of the State of Washington has reason
15 to believe that the Respondents, Pacific Coast Investment Co. and Raymundo Salgado, have
16 violated the Securities Act of Washington and that their violations justify the entry of orders of
17 the Securities Administrator under RCW 21.20.280, RCW 21.20.110, RCW 21.20.325 and RCW
18 21.20.395 to suspend the effectiveness of PCIC's current securities registration and to deny
19 PCIC's re-registration application; to summarily suspend or revoke PCIC's current broker-dealer
20 registration and deny its re-registration application; to summarily suspend or revoke the current
21 salesperson registration of Raymundo Salgado and deny his re-registration application; to give
22 notice of a proposed \$40,000 fine against Raymundo Salgado; and to summarily revoke PCIC's

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24 AMENDED STOP ORDER

1 ability to rely on the exemptions from registration provided by RCW 21.20.320(1), (5), (8), (9),
2 (11), and (17). The Securities Administrator finds that delay in issuing these orders would be
3 hazardous to investors and to the public and that the orders should be entered immediately. The
4 Securities Administrator finds as follows:

5 **TENTATIVE FINDINGS OF FACT**

6 **RESPONDENTS AND THEIR REGISTRATION STATUS**

7 1. Pacific Coast Investment Co. ("PCIC") is a Washington corporation with its
8 principal place of business at 401 Columbia Avenue, Suite 410, Seattle, WA 98104.

9 2. PCIC had been registered pursuant to RCW 21.20.210 and WAC 460-33A to sell
10 mortgage paper securities as that term is defined in WAC 460-33A-015(4). The registration,
11 number 70011404, was scheduled to expire on June 30, 2006.

12 3. PCIC had been registered as a broker-dealer under RCW 21.20.040 with registration
13 number 10003976, which was scheduled to expire on June 30, 2006.

14 4. Raymundo Salgado ("Salgado") is currently a Director, CEO, President and
15 Secretary at PCIC. Mr. Salgado is presently the sole corporate officer of PCIC. Mr. Salgado
16 had been registered as a securities salesperson with registration number 20008043, which was
17 scheduled to expire on June 30, 2006.

18 5. On May 19, 2006, PCIC filed an application for re-registration with the Securities
19 Division ("Division"), as well as a copy of its General Offering Circular dated July 1, 2006.

20 **BACKGROUND**

21 6. PCIC originates or acquires notes secured by deeds of trusts on real property and
22 then resells to investors fractionalized "participation" interests in those loans. PCIC registers
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1 these participation interests with the Securities Division as “mortgage paper securities” under
2 RCW 21.20.210 and WAC 460-33A. Through the registration process in WAC 460-33A,
3 PCIC becomes a “mortgage broker-dealer” as that term is defined in WAC 460-33A-005(1).
4 To use this registration process, WAC 460-33A-020 generally requires that the registrant file
5 a registration statement accompanied by a general offering circular, a sample specific offering
6 circular, and certain other documents with the Securities Division.

7 7. WAC 460-33A also sets forth rules regarding trust accounting, disbursement of
8 investor funds, timely recording the instrument securing the investors’ participation interest,
9 fiduciary duties and conflicts of interests, and other matters.

10 8. Since 2004, the Division has twice issued administrative orders against PCIC
11 alleging failure to timely record investor interests, trust accounting violations, and other
12 matters. In Consent Orders dated May 7, 2004, and November 5, 2005, PCIC agreed to cease
13 and desist from future violations of RCW 21.20.010 and WAC 460-33A-055, -060, -070. See
14 Order Numbers S-03-209-04-CO01 and S-05-073-05-CO01.

15 SECURITIES DIVISION COMMENT LETTER

16 9. The Division issued a comment letter dated June 15, 2006, addressing incomplete or
17 misleading statements in PCIC’s General Offering Circular. Some comments addressed
18 incomplete disclosure about prior loan performance, stale financial information, incomplete
19 disclosure concerning management and key employees, and incomplete information about
20 conflicts of interest and related risks. As of the date of these Orders, PCIC has not responded
21 to the Division’s comment letter or otherwise supplemented its registration statement.

1 REAL ESTATE OWNED SALES RECOMMENDATIONS FROM PCIC

2 10. In connection with the mortgage paper securities that PCIC sells, PCIC serves as
3 servicing agent and manager for the loans and underlying properties. For some mortgage
4 paper securities sold by PCIC, borrowers have defaulted on the underlying notes. Through
5 PCIC's efforts as manager, investors subsequently acquired the real properties that had
6 secured the investors' participation interests in the notes. PCIC has recommended to
7 investors that they sell these real estate owned ("REO") properties. Some of these
8 recommended sales involved financing by the investors through loan transactions that were
9 brokered by PCIC. Based on information provided by PCIC, it made at least three
10 recommendations since May 2005 to sell properties that secured investor participation
11 interests without providing investors all of the disclosures required by WAC 460-33A-037.
12 Omitted disclosures include a current appraisal or broker's opinion of value when required by
13 WAC 460-33A-037(2); tax assessed value; the right of investors to receive a list of other
14 investors holding an interest in the property; the right of a majority of investors to remove
15 PCIC as servicing agent; and a loan application, credit report, and financial statements for the
16 buyer. Despite investor complaints to PCIC, it continued to fail to disclose this information to
17 investors.

18 DELAYED RECORDING OF SECURITY INTERESTS

19 11. Prior Securities Division examinations and investigations of PCIC have revealed
20 that PCIC fails to record property instruments in a timely manner, leaving the investors
21 unsecured or vulnerable to prior recorded interests. In its role as manager, PCIC sells
22 foreclosed properties for investors. Based on information provided by PCIC, in at least two
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1 transactions since May 2005, PCIC released investors' interests in foreclosed properties in
2 consideration for a note without first perfecting investors' security interests in the note. PCIC
3 states that investor interests are secured and does not disclose to investors that it has not
4 perfected their interests in the note or the related risks. In conflict with the investors'
5 interests, PCIC did not obtain consent of investors to release their property interests without
6 having perfected their security interests.

7 EXAMPLE TRANSACTIONS

8 Stambaugh

9 12. During 2005, PCIC solicited investor votes from a group of more than 50 investors
10 to approve a bid for repairs to an REO property, a Youngstown, Ohio office building known
11 as the Stambaugh building. PCIC and Salgado sent the investors a letter dated March 31,
12 2005. The letter lists three companies and their respective bids. The lowest bid came from
13 Property Renovation Services, a company described as "an independent contractor PCIC has
14 used in the past." PCIC and Salgado failed to disclose that Property Renovation Services was
15 owned and/or controlled by Louis Gadini, a key employee and the REO manager for PCIC.

16 13. Later, PCIC and Salgado solicited investor votes to approve the sale of the
17 Stambaugh building. In letters dated November 15, 2005 and December 6, 2005, PCIC and
18 Salgado represented that Peter Pappas, a prospective purchaser of the Stambaugh building,
19 was a qualified buyer who owned several commercial buildings in Youngstown, Ohio. PCIC
20 said that it had received financial statements showing assets in excess of \$50 million and that
21 PCIC had confirmed Mr. Pappas's net worth. Based on these representations, a majority of
22 the investors voted to approve the sale of the Stambaugh building to Peter Pappas. The letter
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1 did not disclose whether Mr. Pappas had any liabilities and it did not disclose Mr. Pappas's
2 net worth. The Securities Division has reviewed all of the files that PCIC produced relating to
3 the transaction and has found no financial statements or other financial information pertaining
4 to Peter Pappas.

5 14. After telling investors that the prospective purchaser for the Stambaugh building was
6 Peter Pappas, PCIC and Salgado sold the Stambaugh building to a different buyer, without the
7 knowledge or approval of the investors. PCIC and Salgado unilaterally approved the sale of
8 the Stambaugh building to Platia Square, LLC, an Ohio LLC with a purported net worth of
9 \$212,500. On March 29, 2006, when PCIC and Salgado sold the Stambaugh building, the
10 purchaser, Platia Square, LLC, had no legal existence. In order to finance the sale, PCIC and
11 Salgado approved a \$1,050,000 loan from the investors to Platia Square, LLC, a company that
12 was organized on May 16, 2006. On March 29, 2006, PCIC recorded a mortgage to secure
13 the note from Platia Square, LLC to PCIC. On May 14, 2006, PCIC recorded an assignment
14 of mortgage to secure the investors' participation interests in the loan.

15 Oaks Motel

16 15. During 2005, PCIC solicited investor votes from a group of more than 75 investors to
17 approve the sale of a hotel and mobile home park in Longview, Washington, known as the
18 Oaks Motel & Trailer Court ("Oaks Motel"). PCIC and Salgado sent the investors a letter
19 dated April 20, 2005. In the letter, PCIC and Salgado represented that they had received a
20 \$1,752,000 purchase offer for Oaks Motel from REO Property Management, "an independent
21 contractor with whom we have worked in the past and currently help with distressed
22 properties." PCIC and Salgado failed to disclose that REO Property Management, Inc. was
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1 owned and/or controlled by Louis Gadini, a key employee and the REO manager for PCIC.
2 On June 30, 2005, PCIC sold the Oaks Motel property to REO Property Management. In
3 order to finance the purchase, REO Property Management borrowed \$1,752,000 from the
4 investors. On July 11, 2005, PCIC recorded an assignment of deed of trust to secure the
5 investors' participation interests in the loan.

6 Goldstar Development

7 16. During 2006, PCIC solicited investor votes from a group of approximately 10
8 investors to approve the sale of three lots in Longview, Washington, known as the Goldstar
9 Development lots. In a letter dated January 23, 2006, PCIC and Salgado told investors that
10 the Goldstar Development loan had originally been secured by 5 vacant lots that were
11 appraised in 1997 at \$180,000. Two of the lots were sold, with three vacant lots remaining.
12 The letter stated that there was no interest in buying the three remaining lots because they had
13 a steep slope and the costs of developing the land had discouraged any potential developers.
14 The letter said that the City of Longview had recently issued a citation because the ground
15 was falling in and creating a public nuisance and that the potential buyer wanted to use the
16 land as a dirt landfill site. The letter stated that in the opinion of the real estate agent the land
17 was not saleable and had little or no commercial value. The letter said that PCIC had received
18 a \$3,000 cash offer for the lots and PCIC and Salgado recommended that the investors accept
19 the offer.

20 17. PCIC and Salgado failed to disclose that the proposed buyer of the land was REO
21 Property Management, Inc., which was owned and/or controlled by Louis Gadini, a key
22 employee and the REO manager for PCIC. PCIC and Salgado failed to disclose that the
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1 reason the City of Longview had issued a public nuisance citation to PCIC was for not
2 clearing off the sidewalks. PCIC and Salgado failed to disclose that the combined tax
3 assessed value of the three lots was approximately \$58,000 at the time of the offer. On
4 January 29, 2006, PCIC and Salgado sold the lots to REO Property Management, Inc. for
5 \$3,000. REO Property Management, Inc. made improvements to the lots and sold the lots for
6 \$100,000 on April 19, 2006.

7 FAILURE TO PROVIDE REQUIRED RECORDS

8 18. For transactions involving real estate owned properties, because PCIC did not
9 maintain adequate books and records, PCIC and Salgado have been unable to provide ledgers
10 or other records that itemize separately the account of each investor. For example, in 2006,
11 the servicing of the "Tyee" loan was transferred from PCIC to a different company, Mallard
12 Bay, LLC. PCIC and Salgado failed to provide Mallard Bay, LLC with records showing
13 which investors contributed additional funds, through cash calls, over the life of the Tyee
14 loan. PCIC and Salgado have also failed to provide the Securities Division with complete
15 accounting records that itemize the funds that were collected from income-producing REO
16 properties. In addition, PCIC and Salgado have failed to provide the Securities Division with
17 complete records that support the expenses that have been charged to investors for real estate
18 owned properties.

19 UNDISCLOSED LITIGATION

20 19. During 2006, PCIC and Salgado failed to timely disclose to investors and to the
21 Securities Division that Philip Chesterfield, a 1/3 shareholder of PCIC, had filed a lawsuit in
22 February 2006 against PCIC and Salgado for alleged breach of contract, tortious interference
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1 with a business relationship, negligent misrepresentation, fraud and defamation and was
2 seeking to dissolve the company.

3 CONTINUING INVESTIGATION

4 20. This matter is being investigated for other possible violations of the Securities Act of
5 Washington and the rules and orders thereunder.

6 EMERGENCY AND PUBLIC INTEREST

7 21. The Securities Administrator finds that an emergency exists, that the continued
8 violations of RCW 21.20 and WAC 460-33A, and the continued availability of exemptions
9 under RCW 21.20.320(1), (5), (8), (9), (11), and (17), constitute a threat to the investing
10 public, and that orders suspending securities registration and denying re-registration,
11 suspending broker-dealer and salesperson registrations, and revoking the availability of the
12 exemptions under RCW 21.20.320(1), (5), (8), (9), (11), and (17) are in the public interest and
13 necessary for the protection of the investing public.

14 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

15 **CONCLUSIONS OF LAW**

16 1. The offer or sale of notes, notes and deeds of trust, and mortgage paper securities as
17 described above constitutes the offer or sale of a security as defined in RCW 21.20.005(10)
18 and (12).

19 2. As set forth above in the Tentative Findings of Fact, PCIC's general offering
20 circular and other re-registration materials are materially incomplete, which constitutes a
21 ground for the entry of a Stop Order under RCW 21.20.280(1).

1 3. As set forth above in the Tentative Findings of Fact, PCIC has willfully violated
2 WAC 460-33A-037 because it recommended to investors that they sell real estate the
3 investors owned without providing required disclosures, which constitutes grounds for a Stop
4 Order under RCW 21.20.280(2), an order suspending and denying broker-dealer and
5 salesperson registration under RCW 21.20.110(1), and an order revoking exemptions under
6 RCW 21.20.325.

7 4. As set forth above in the Tentative Findings of Fact, PCIC and Salgado have each
8 violated RCW 21.20.010 because, in connection with the offer or sale of a security, they made
9 materially false or misleading statements or omissions regarding investor security interests,
10 property values, borrower credit and financial information, material litigation against the
11 company and its officers and directors, and other matters. Such conduct constitutes grounds
12 for a Stop Order under RCW 21.20.280(2), an order suspending and denying or revoking
13 broker-dealer and salesperson registration under RCW 21.20.110(1), and an order revoking
14 exemptions under RCW 21.20.325.

15 5. As set forth in the Tentative Findings of Fact, PCIC has violated RCW 21.20.100
16 because PCIC has not made, kept, and preserved records as required under WAC 460-33A-
17 115 and -120. Such conduct constitutes grounds for a Stop Order under RCW 21.20.280(2),
18 an order suspending and denying or revoking broker-dealer registration under RCW
19 21.20.110(1), and an order revoking exemptions under RCW 21.20.325.

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1 **STOP ORDER AND SUMMARY ORDER**

2 Based on the foregoing, now, therefore:

3 IT IS HEREBY ORDERED, under the authority of RCW 21.20.280(1) and (2), that
4 the current securities registration of Pacific Coast Investment Co. is suspended.

5 It is further ORDERED, under the authority of RCW 21.20.280(1) and (2), that
6 PCIC’s re-registration application is denied.

7 It is further SUMMARILY ORDERED, under the authority of RCW 21.20.110(1), that
8 PCIC’s broker-dealer registration is suspended.

9 It is further SUMMARILY ORDERED, under the authority of RCW 21.20.110(1), that
10 PCIC’s broker-dealer re-registration application is denied.

11 It is further SUMMARILY ORDERED, under the authority of RCW 21.20.110(1), that
12 Raymundo Salgado’s salesperson registration is suspended.

13 It is further SUMMARILY ORDERED, under the authority of RCW 21.20.110(1), that
14 Raymundo Salgado’s salesperson re-registration application is denied.

15 It is further SUMMARILY ORDERED, under the authority of RCW 21.20.325, that the
16 exemptions from registration in RCW 21.20.320(1), (5), (8), (9), (11), and (17) are revoked
17 with respect to securities offered or sold by PCIC or its affiliates.

18 **NOTICE OF INTENT TO IMPOSE A FINE**

19 Pursuant to RCW 21.20.110(1) and (4) and/or RCW 21.20.395, and based upon the
20 above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator
21 intends to order that Respondent Raymundo Salgado shall be liable for and shall pay a fine of
22 \$40,000.

1 **AUTHORITY AND PROCEDURE**

2 These Orders are entered pursuant to the provisions of RCW 21.20.280, RCW
3 21.20.110, RCW 21.20.325 and RCW 21.20.395 and are subject to the provisions of chapter
4 34.05 RCW. The Respondents, Pacific Coast Investment Co. and Raymundo Salgado, may
5 each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY
6 TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order.

7 If a Respondent does not request a hearing, the Securities Administrator intends to
8 adopt the above Tentative Findings of Fact and Conclusions of Law as final, and enter a final
9 Stop Order revoking registration effectiveness and denying re-registration and a final Order
10 revoking broker-dealer registration, revoking salesperson registration, and revoking
11 exemptions as to the Respondent.

12 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

13 Dated this 9th day of November, 2006

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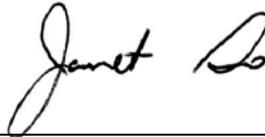
15 _____
16 MICHAEL E. STEVENSON
17 Securities Administrator

18 Approved by:

19 

20 _____
21 Martin Cordell
22 Chief of Enforcement

Presented by:

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24 _____
Janet So
Staff Attorney